



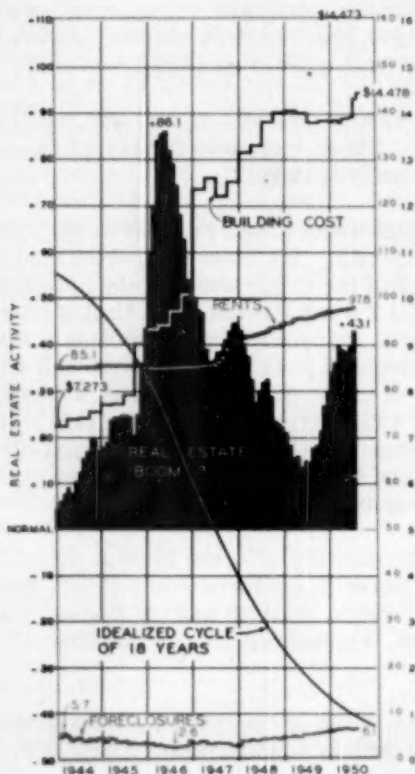
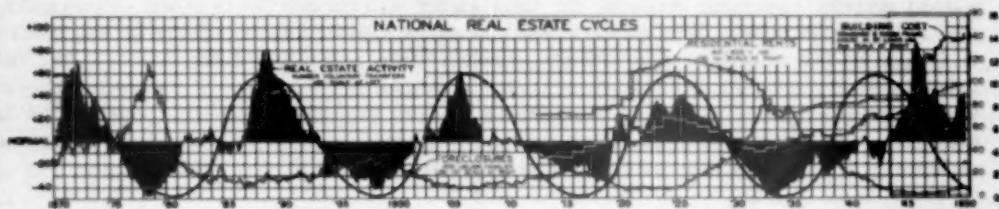
# The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS



During July our REAL ESTATE real estate activity index rose to 143.1 points above the long-term computed normal. This continued rise, following the mild setback during April and May, carried the index to its highest point since December 1947. National activity is now higher than it was at any time during the boom of the 1920's.

Our belief is that the present war situation will not cause a general increase in real estate activity. Another belief expressed rather often is that the average real estate man (the small operator) is not enjoying a "fair share" of the present high real estate activity.

The Korean incident and whatever develops from it comes on the heels of seven years of unprecedented real estate and construction activity. Our real estate boom reached its peak in 1946 and declined steadily for three years. Last August, real estate activity, pushed along by record-breaking home building, began to

recover strongly. We have pointed out from time to time that this resurgence of real estate activity relied heavily on the sale of newly built homes and that if anything happened to the building boom, real estate activity would start falling again. It is not possible to compute by simple arithmetic just what effect the building boom has had on real estate activity. No one can say, for example, where the real estate activity index would be if we had built only 750,000 homes in the last twelve months. (Actually 1,318,300 new nonfarm homes were started during the year ending July 31, 1950.) It is apparent, however, that the construction boom has played a major role in sending real estate activity to its present level.

In attempting to analyze the relationship between construction volume and real estate activity, we must consider the time factor and choose the periods of comparison rather carefully. This is necessary because construction volume is expressed in terms of the number of new units started (data are taken from building permit information), while real estate activity reflects the number of voluntary sales. Most frequently the house is sold three to five months after its construction is started. Therefore, it is generally several months before increased construction volume is translated into increased real estate activity.

In the following comparisons we have attempted to compensate for this time lag in this manner: The real estate activity periods we use are the first six months of 1949 (Period 1) and the first six months of 1950 (Period 2). The construction volume periods we use go back three months farther. In other words, the construction volume periods are the last quarter of 1948 plus the first quarter of 1949 (Period 1), and the last quarter of 1949 plus the first quarter of 1950 (Period 2).

During Period 2 residential construction volume was 48% higher and real estate activity was 19% higher than during Period 1. These increases represent the average of all cities that make up our real estate activity index.

For further analysis we have ranked all of these cities in accordance with the increase they have shown in real estate activity. We have then separated them into five groups. The top group is composed of the cities showing the greatest increase in real estate activity (40%), Period 2 over Period 1. This top group in real estate activity also showed the greatest increase in construction volume - 145%. The second group showed a 27% increase in real estate activity and an 82% increase in construction volume. The cities in the middle group had an average increase of 19% in real estate activity and a 45% increase in construction volume. The next lowest group of cities had an increase of 11% in real estate activity and an increase of 20% in construction volume, and the lowest group of cities recorded a 2% drop in real estate activity and a 3% drop in construction volume.

The above analysis shows that the group of cities with the highest increase in real estate activity also had the highest increase in construction volume, the cities with the second highest increase in real estate activity had the second highest increase in construction volume, and so on, right down the line through all five groups.

When applied to individual cities, however, such an analysis does not give consistent results. It can be stated that an increase in construction volume generally  
(cont. on page 378)

# CHANGES IN COST OF 6-ROOM FRAME HOUSE - 52 CITIES

	January 1950		July 1950		% increase
	Cost	Cu. ft. cost	Cost	Cu. ft. cost	
Albuquerque, N. M.*	\$12,367	63.8¢	\$13,070	67.5¢	5.7
Atlanta, Ga.	11,278	44.4	12,012	47.3	6.5
Austin, Tex.*	12,300	63.5	12,949	66.8	5.3
Baltimore, Md.	12,127	47.8	13,406	52.8	10.5
Birmingham, Ala.	11,950	47.1	12,281	48.4	2.8
Boise, Idaho	13,751	54.2	14,544	57.3	5.8
Boston, Mass.	14,615	57.6	14,901	58.7	2.0
Burlington, Vt.	13,768	54.3	14,180	55.9	3.0
Butte, Mont.	14,849	58.5	15,477	61.0	4.2
Charleston, S. C.	11,566	45.6	12,073	47.6	4.4
Charleston, W. Va.	14,543	57.3	15,343	60.5	5.5
Charlotte, N. C.	11,811	46.5	12,282	48.4	4.0
Chicago, Ill.	14,184	55.9	14,476	57.0	2.1
Cincinnati, Ohio	14,041	55.3	14,938	58.9	6.4
Cleveland, Ohio	14,600	57.5	15,011	59.2	2.8
Denver, Colo.	13,595	53.6	13,898	54.8	2.2
Des Moines, Iowa	14,348	56.5	15,173	59.8	5.7
Detroit, Mich.	13,496	53.2	13,815	54.4	2.4
Fargo, N. D.	14,342	56.5	14,945	58.9	4.2
Hartford, Conn.	14,655	57.6	15,390	60.6	5.0
Houston, Tex.*	12,379	63.9	13,187	68.1	6.5
Indianapolis, Ind.	14,382	56.7	15,001	59.1	4.3
Jackson, Miss.	11,499	45.3	12,400	48.9	7.8
Knoxville, Tenn.	11,282	44.5	11,877	46.8	5.3
Little Rock, Ark.	12,474	49.2	12,846	50.6	3.0
Los Angeles, Calif.*	12,156	62.7	12,730	65.7	4.7
Louisville, Ky.	13,349	52.6	13,743	54.2	3.0
Manchester, N. H.	13,995	55.2	14,731	58.1	5.3
Memphis, Tenn.	12,218	48.1	12,628	49.8	3.4
Miami, Fla.*	11,477	59.2	12,194	62.9	6.2
Milwaukee, Wis.	13,893	54.7	14,777	58.2	6.4
Minneapolis, Minn.	14,062	55.4	14,706	58.0	4.6
New Orleans, La.*	12,015	62.0	12,898	66.6	7.3
New York, N. Y.	14,819	58.3	15,443	60.9	4.2
Oklahoma City, Okla.	13,370	52.7	14,205	56.0	6.2
Omaha, Neb.	13,380	52.7	13,732	54.1	2.6
Philadelphia, Pa.	13,192	52.0	13,627	53.7	3.3
Phoenix, Ariz.*	13,592	70.1	14,504	74.9	6.7
Pittsburgh, Pa.	15,148	59.7	15,832	62.4	4.5
Portland, Maine	13,422	52.9	14,204	56.0	5.8
Portland, Oreg.	13,620	53.7	14,248	56.1	4.6
Providence, R. I.	14,501	57.1	15,120	59.6	4.3
Reno, Nev.	13,981	55.1	14,562	57.4	4.2
Richmond, Va.	12,036	47.4	12,292	48.4	2.1
St. Louis, Mo.	14,437	56.9	14,937**	58.9	3.5
Salt Lake City, Utah	14,210	56.0	14,432	56.9	1.6
San Francisco, Calif.	13,025	51.3	13,754	54.2	5.6
Seattle, Wash.	12,796	50.4	13,322	52.5	4.1
Sioux Falls, S. D.	14,563	57.4	15,076	59.4	3.5
Trenton, N. J.	16,266	64.1	17,066	67.3	4.9
Washington, D. C.	14,377	56.7	14,864	58.6	3.4
Wichita, Kan.	12,753	50.3	13,252	52.2	3.9

\*No basement.

\*\*Includes garage.

(cont. from page 376)

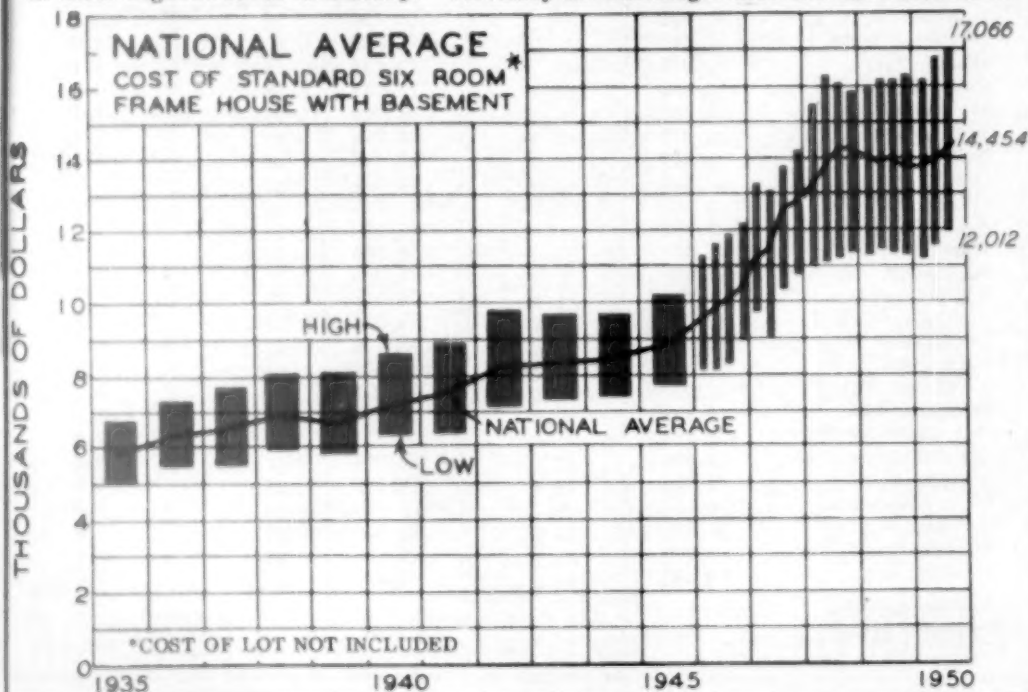
results in increased real estate activity, but construction activity is not absolutely necessary for a real estate boom. (Our present boom reached an all-time high in 1946 with very little construction activity.) Moreover, even a sizable increase in construction may not be sufficient to forestall a drop in real estate activity. One large Eastern city recorded a 37% increase in construction volume and a 3% decrease in real estate activity.

This analysis does emphasize the fact that the present level of national and regional real estate activity is largely dependent on the construction boom, and indicates that a slump in building will result in a slump in national real estate activity. It also points out that there are certain cities that may not be so adversely affected by a slump in construction as others.

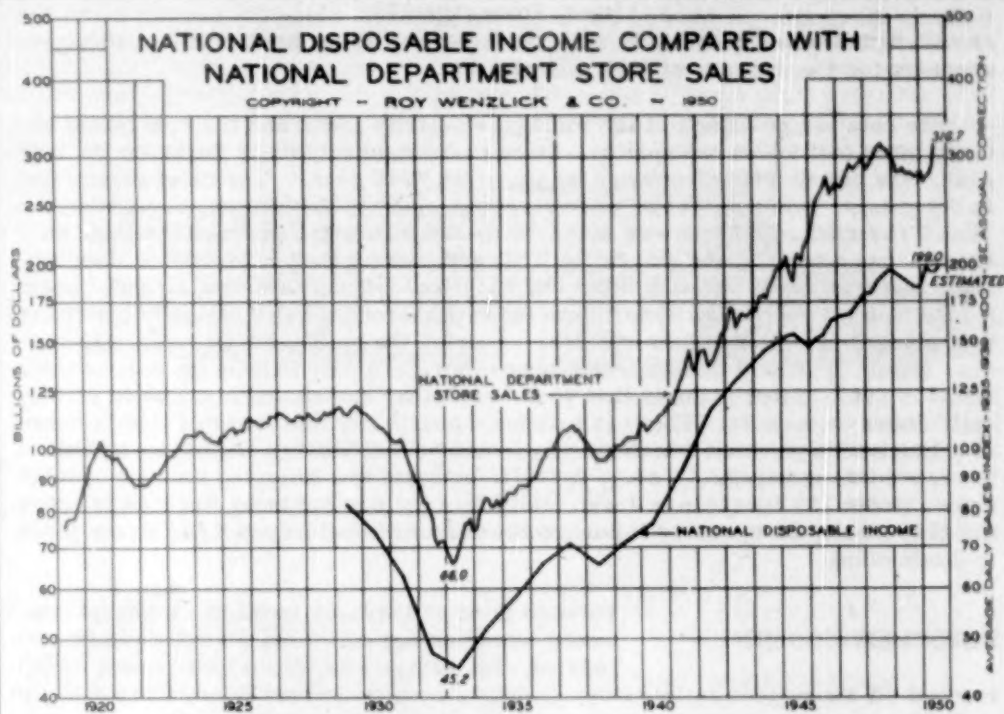
Through July the recently enacted credit regulations had had little effect on the building boom. The effect will become gradually apparent and will not take hold with full force for several months. By that time 1950 will be nearly over, our international demands will be more definite, and the burdens to be placed on the various industries will become more clearly known. Any suffering the building boom will do as a result of recent credit regulations will lie more in 1951 than in 1950.

#### RESIDENTIAL CONSTRUCTION COSTS

During most of 1950 discussions of construction costs have been somewhat in the background. They have been almost completely overshadowed by the tremendous amount of building. Recently, however, their sharp increases have focused more attention on them. They are now at their highest level in history. Virtually all building materials have increased







in price, but the greatest rises have occurred in lumber and metal items. We look for more, but possibly slower rises until perhaps the last quarter of 1950. Then, we expect a slow decline but nothing spectacular in the foreseeable future.

On page 377 is a table showing the July 1950 cost of building our standard six-room frame house compared with the January 1950 cost in 52 cities. Notice that every single city has shown an increase during this six-month period.

In order to make the St. Louis cost of our house comparable with the other costs shown in this table we have figured the cost to include a one-car garage. This accounts for the double asterisk next to the St. Louis figure. The other St. Louis cost for our six-room frame house shown on the chart on page 375 does not include a garage. From now on, the cost figures for the standard six-room frame house will not include the cost of the garage. Prior to August 1950 the garage cost was included. Our readers are familiar with the breakdown of construction cost table showing the costs on the six-room house back to 1913. Any of these tables, published from August 1950 on, in any of our reports, will show the cost of this house without the garage. The one exception is the table of costs in 52 cities shown on page 377. This bulletin will be the last one to show these costs including the garage.

#### REAL ESTATE MORTGAGE ACTIVITY

During June 1950 our real estate mortgage activity index bounded nimbly to a new postwar high of 203.5. Incidentally, this is the highest reading the index has achieved since the old days when

multiple mortgages dominated the financing picture. Since the housing boom has shown little sign of quieting down, the index will undoubtedly show still higher readings for the months of July and August.

The relative positions of the mortgage activity index and the real estate activity index call for an explanation. Since real estate activity is far below its 1946 peak, how can mortgage activity be above its 1946 peak? The chief reason lies in the greater number of cash sales that took place in the immediate postwar period. The cost of homes was some 20 to 30% below the current level and purchasers were entering the market with the greatest backlog of savings in the country's history. Today, most families that had the necessary cash have already bought a home and the vast majority of homes being purchased require one and sometimes two mortgages. Another factor of less import is the probability of individual sellers' failing to record the purchase money mortgage they took on the sale of their house in 1946. Most sales in that year were older homes and many were sold by their owner-occupants. There is a distinct possibility that many of these sellers in taking back a purchase money mortgage failed either through neglect or ignorance to record this mortgage. Today, fewer individuals are financing the sale of their homes (about 11% less than in 1946), while the total number being financed is above the 1946 level. So whatever influence the unrecorded mortgages had on the index is diminishing.

#### CONSUMER SPENDING

Through most of 1949, disposable income and consumer spending appeared headed into a mild recession, but early in 1950 and long before Korea touched off the recent anticipatory splurge, consumer spending slanted sharply upward.

Following the outbreak of hostilities, consumers started a buying spree disturbingly similar to those in early World War II, boosting spending to new heights in many lines. A large portion of these frightened dollars found their way into well-filled department stores (see chart on page 379). Another sizable chunk passed across the counters of grocery stores, somewhat to the bewilderment of their proprietors, who were acutely aware that a food shortage was a very remote possibility. The resulting rise in the cost of living, particularly in food costs, has not sprung from the classic source - buyers bidding up the price of scarce commodities. The commodities have not been scarce and the prices have not been bid up, they have simply been raised. Just what group in our vast distribution system was responsible for the raises is beside the point - but most consumers who rushed pell-mell into the markets a few weeks ago are probably feeling a little foolish today.

In an economy so vast and complex as ours there are nearly always a few spot shortages, but nothing has happened so far this year to indicate that these shortages are going to increase significantly either in time or number. When Washington finally gets around to deciding what the nation's course of action will be, and what men, money and materials will be necessary to carry it out, more shortages may result. By that time, however, most consumers will be struggling with problems a great deal more portentous than the procurement of a new refrigerator, a new shirt, or 50 pounds of sugar.

(cont. on page 382)

# INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

August 1950



## COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet

8,075 square feet

Cost today: \$47,402

(41.0¢ per cubic foot; \$5.86 per square foot)



## 18-FAMILY BRICK APARTMENT

(FRAME INTERIOR)\*

Content: 168,385 cubic feet

13,260 square feet

Cost 1939: \$ 60,300

(35.8¢ per cubic foot; \$ 4.55 per square foot)

Cost today: \$147,222

(87.5¢ per cubic foot; \$11.10 per square foot)

INCREASE OVER 1939 = 145%



## 30-UNIT REINFORCED CONCRETE APARTMENT\*

Content: 303,534 cubic feet

21,372 square feet

Cost 1939: \$135,000

(44.5¢ per cubic foot; \$ 6.33 per square foot)

Cost today: \$312,125

(\$1.03 per cubic foot; \$14.62 per square foot)

INCREASE OVER 1939 = 131%

\*Costs include full basement.

**OUTLOOK FOR  
BUILDING MATERIALS**

(cont. from page 380)

The supply of building materials has grown progressively tighter as the 1950 boom expanded. Although production has been in a rising trend since the start of the year it has not begun to keep pace with the enormous increase in construction demand. It now looks as if this situation will show improvement. The new credit restrictions will at least slow the rate of expansion of the housing boom, thereby giving the hard-pressed material producers a chance to catch up. (During the second week in August, lumber production ran nearly 8% ahead of new orders.)

We, therefore, look for building materials to go through a short period of chaos followed by a fairly steady improvement in their supply. We think that building material prices, pushed to record peaks by record demand, will soon level off. But there is nothing in the picture now that indicates worthwhile price drops soon. In summary, the supply situation has been bad - it may get worse for a brief period - but will improve steadily probably from September on; prices, fairly steady but very high.